

DELAWARE HEALTH FACILITIES AUTHORITY

Minutes of Meeting

of

June 16, 2015

A Meeting of the Delaware Health Facilities Authority (the “Authority”) was held after proper notice at 2:00 p.m., June 16, 2015, in the offices of Potter Anderson & Corroon LLP at 1313 N. Market Street, Wilmington, Delaware.

In attendance were Authority Members:

Rolf F. Eriksen (Chair)
Desmond A. Baker
George W. Forbes, III
William G. Neaton
Howard A. Palley, Ph.D.
William J. Riddle

Also in attendance were:

John J. Quinn, III, Esquire, Counsel to the Authority
Peter Kennedy, CPA, representing Cover & Rossiter, P.A., the Authority’s
auditors (the “Auditors” or “C&R”)

In attendance in person in connection with the Beebe Medical Center, Inc. (“Beebe” or “Borrower” or the “Hospital”) Application for Revenue Bond Financing (the “Beebe Application” or the “Application”) were:

Jeffrey M. Fried, Chief Executive Officer, Beebe
Paul J. Pernice, Chief Financial Officer, Beebe
Emilie R. Ninan, Esq., Ballard Spahr LLP, Bond Counsel
Michael I. Davidson, Esq., Fineman, Krekstein & Harris, Borrower’s Counsel
Donald J. Persinski, Managing Director, Ponder & Co., Financial Advisor to the
Borrower
Rob Junqua, Bank of America Merrill Lynch, Senior Managing Underwriter

Participating in the meeting by telephone were:

Emily Abrantes, Public Financial Management (Authority’s Financial Advisor)
 (“PFM”)
David Kratzer, PFM

No members from the general public appeared during the course of the meeting.

After preliminary introductions, Mr. Eriksen, Chair, called the meeting to order at 2:06 p.m., thanked everyone for coming, and noted that the meeting is open to the public.

Consideration of the Beebe Medical Center, Inc.
Application for Revenue Bond Financing

The public hearing was then opened with respect to the request by Beebe to the Authority to issue revenue bonds in the aggregate principal amount not to exceed \$20,000,000.

At Chair Eriksen's invitation, the Hospital and its advisors and the Authority Members participated in presentations and discussions regarding details of the Beebe Application. In particular, presentations of information and leading of discussions were made and done on behalf of Beebe by Ms. Ninan, Mr. Fried, and Mr. Persinski.

In response to questions raised by Member Neaton, Ms. Ninan explained to the Authority Members that the proposed bonds would be in an amount not to exceed \$20 million and would be used for a current refunding of the Authority's Beebe Medical Center Project Series 2005A Revenue Bonds and the costs of issuance of the proposed bonds. Ms. Ninan also advised the Authority Members that the proposed bonds would be limited obligations of the Authority payable solely out of the revenues and receipts derived pursuant to payments under the documents that will govern the Hospital's contractual obligations under the bonds, and that the proposed bonds would not give rise to a charge upon the general credit of the State of Delaware or the Authority.

In response to questions raised by Authority Members regarding bond ratings, Mr. Junqua explained that the bonds would have an investment grade rating and would be issued in \$5,000 denominations. As currently contemplated, principal payments on the bonds would not exceed \$1 million in any one year. Mr. Persinski provided further input that the Standard & Poor's ("S&P") credit rating for Beebe is currently BBB- / Positive, with an update call anticipated.

At Member Palley's request, Beebe representatives and Ms. Abrantes briefly described the Beebe affiliated entities, including Delmarva Health Network, a limited liability company, and Beebe HealthyBack, a joint venture arrangement with Pure HealthyBack.

Beebe representatives and advisors explained to the Authority Members that the proposed bonds will not be secured by a debt service reserve fund and will reduce the Hospital's future debt service requirements and debt outstanding. The Hospital expects to generate a net present value savings of \$1.1 million (annual cash flow savings of approximately \$265,000 for the life of the proposed bonds) or approximately 6.6% of refunded par. The proposed bonds would be the only outstanding public debt of the Hospital (the Hospital's outstanding Series 2014 Bonds being private placements).

Upon Member Forbes's request, Beebe representatives discussed the decline in the Hospital's provision for bad debt.

Following these discussions, Chair Eriksen asked Emily Abrantes, PFM, to note its position and make a recommendation to the Authority Members based on the Hospital's financial condition. Mr. Quinn had previously distributed to the Authority Members copies of PFM's Approval Memorandum.

Ms. Abrantes reviewed the proposed transaction and structure, and noted that this will be a public offering with a final maturity no later than June 1, 2030. The maturity and amortization of the proposed bonds would substantially match those of the refunded Series 2005A Bonds. The proposed bonds will carry a rating from S&P only.

Ms. Abrantes then summarized the major provisions of the Approval Memorandum, including its sections on Facilities and Services, and Summary Statement of Operations. Ms. Abrantes noted the Hospital's favorable operating environment and its strong market share. Ms. Abrantes advised the Authority Members that the proposed bonds will shift Beebe's debt mix from 46/54 (fixed/variable %) to 43/57, largely a consequence of estimated lower borrowing costs and a release of previously held reserve funds that will reduce fixed debt outstanding. The proposed bonds will include financial covenants substantially the same as those in place for currently outstanding bonds.

Ms. Abrantes described the proposed transaction as a straightforward refunding for economic savings.

After the presentation and further discussion, Ms. Abrantes stated PFM's favorable recommendation regarding the proposed bond issuance.

In response to Member Neaton's question, Ms. Abrantes confirmed that the proceeds of the proposed bonds would be used solely to refund the Series 2005A Bonds and cover the costs of issuance of the new bonds.

In response to Member Forbes' question, Mr. Fried confirmed that the legal issues surrounding former pediatrician Earl Bradley had been resolved.

In response to a question raised by Chair Eriksen, Mr. Persinski described the likely impact on the Hospital if variable rates should rise in the future. Mr. Persinski reported that while it is correct that the amount of variable interest charges would increase with a rise in variable rates, it is important to note that the proposed bonds are fixed rate bonds, the proposed bonds will refinance the Series 2005A Bonds (which are also fixed rate), and the proposed bonds will marginally reduce the overall debt burden on the Hospital. Mr. Junqua also noted that the proposed transaction not only reduces the Hospital's total debt and annual debt service, but it may also facilitate possible upgrades in the Hospital's credit ratings.

In response to Member Palley's question, Beebe representatives stated the projected savings resulting from the proposed transaction to be \$3.9 million over the life of the bonds, or \$1.1 million on a present value basis.

In response to further discussions regarding savings, Beebe representatives stated that the annual savings under the proposed bond transaction would be approximately \$265,000, and confirmed that the costs of issuance, estimated to be \$485,000, have been netted out from the savings calculations.

At this time, Member Riddle, in the interest of full disclosure, advised the meeting that he is President of Community Bank Delaware (“CBD”) and that CBD has had past business relationships with the Borrower. Member Riddle further stated that CBD’s past business relationships are not related to the proposed revenue bonds and that it has no current dealings with the Hospital. Mr. Quinn advised Member Riddle that he was not required to abstain from the Authority Members’ consideration of the Hospital’s application as a consequence of his employer’s prior business relationships with Beebe.

Mr. Quinn advised Chair Eriksen and the other Authority Members that he has reviewed the bond documents, which are still currently circulating in draft form for comments and that he is comfortable with the bond documents in their current form, but that further reviews will be needed as the documents are finalized. Mr. Quinn noted that the Authority’s Bond Committee, to be appointed, will have further opportunity to consider any material changes to the bond documents, within the limitations of the Bond Committee’s authority as set forth in the resolution to be proposed.

Whereupon, Mr. Quinn, Counsel to the Authority, presented to the Authority Members the proposed resolution entitled “A BOND RESOLUTION APPROVING A PLAN OF FINANCING AND THE EXECUTION AND DELIVERY OF CERTAIN AGREEMENTS, APPOINTING A COMMITTEE TO APPROVE THE FINAL TERMS OF ONE OR MORE SERIES OF BONDS, AND PROVIDING FOR OTHER MATTERS IN CONNECTION THEREWITH,” a copy of which had been previously circulated to the Authority Members and which is attached hereto in the form considered by the Authority Members. Mr. Quinn summarized the proposed resolution for the Authority Members and all in attendance.

Member Palley reported to the Chair that he was abstaining from the Authority Members’ further consideration of the proposed resolution.

Following Mr. Quinn’s presenting of the proposed resolution to the Authority Members, and further discussions, Chair Eriksen called for a motion regarding the proposed resolution. Upon motion made by Member Neaton and seconded by Member Forbes, the Authority Members present voted five (5) votes approving the resolution in the form attached, and none opposing (with Member Palley abstaining from the vote).

At approximately 2:55 p.m., those in attendance representing Beebe thanked the Authority Members for their consideration and support and exited the meeting room.

The Authority Members in attendance then turned to other Authority matters not pertaining to the Beebe Application.

Meeting of the Authority
(Matters not Pertaining to Beebe Application)

Financial Statements for the Years ended December 31, 2012 and December 31, 2013

Mr. Eriksen asked Mr. Kennedy to discuss generally the financial statements for the years ended December 31, 2012 and December 31, 2013.

Mr. Quinn distributed to the Members an updated copy of the audited 2012 and 2013 financial statements marked "DRAFT" for review. Mr. Kennedy noted that the financial statements were prepared in accordance with United States GAAP and that the Auditor's Report opines that the financial statements fairly present the financial position of the Authority.

Mr. Eriksen opened the discussions to Members' questions and comments. In response to Members' questions, Mr. Kennedy explained that C&R corresponds with the banks and the hospitals to get the financial numbers used in the financial statements and audit. In the course of doing so, C&R relies in part on auditing work done by the individual hospital's auditors. C&R does spot checking of information. For example, bond amortization schedules were verified to confirm that they were reasonable.

Mr. Kennedy resumed his presentation and review of the financial reports. After this presentation and discussion, the Members asked Mr. Quinn whether the Authority's bonds could become direct financial obligations of the State or the Authority, for example upon default of the borrowing hospital. Mr. Quinn assured the Members that the Authority's bonds were not financial obligations of the State or its agencies, and were payable solely from the revenues and secured assets of the borrowing hospitals.

Mr. Forbes recommended that the auditors include language in the financial statements that the Authority's bonds are not direct financial obligations of the Authority. In response to this, Mr. Quinn agreed to prepare and send to the auditors language that would clearly state this, to be included in the Authority's financial statements.

[Post-meeting action: Mr. Quinn forwarded the following language to Cover & Rossiter, the Authority's auditors, for inclusion in the financial statements:

BONDS ISSUED BY DELAWARE HEALTH FACILITIES AUTHORITY ("AUTHORITY BONDS") ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM PAYMENTS UNDER, AND OTHER FUNDS MAINTAINED UNDER, THE DOCUMENTS THAT GOVERN THE CONTRACTUAL OBLIGATIONS UNDER THE AUTHORITY BONDS. THE AUTHORITY DOES NOT ASSUME GENERAL LIABILITY FOR THE REPAYMENT OF ANY AUTHORITY BONDS AND AUTHORITY BONDS DO NOT GIVE RISE TO A CHARGE UPON THE GENERAL CREDIT OF THE AUTHORITY. THE AUTHORITY HAS NO TAXING POWER AND NO SOURCE OF FUNDS OTHER THAN FROM THE CONTRACTUAL OBLIGATIONS OF PARTICIPATING HEALTH CARE FACILITIES.]

At the request of Mr. Eriksen, Mr. Forbes moved that the financial statements be approved as presented, subject to inclusion of the language regarding the Authority's financial obligation under the bonds. Mr. Baker seconded the motion. There was no further discussion. Subject to this condition, the Members voted unanimously in favor of approving the 2012 and 2013 financial statements as presented.

There being no further business, Mr. Eriksen adjourned the meeting at 3:27 p.m.

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CERTIFICATION

I, Desmond A. Baker, hereby certify that the foregoing is a true and correct copy of the Minutes of Meeting of the Delaware Health Facilities Authority held on June 16, 2015.

Desmond A. Baker
Secretary-Treasurer

ATTACHMENT

DELAWARE HEALTH FACILITIES AUTHORITY

RESOLUTION

A BOND RESOLUTION APPROVING A PLAN OF FINANCING AND THE EXECUTION AND DELIVERY OF CERTAIN AGREEMENTS, APPOINTING A COMMITTEE TO APPROVE THE FINAL TERMS OF ONE OR MORE SERIES OF BONDS, AND PROVIDING FOR OTHER MATTERS IN CONNECTION THEREWITH.

WHEREAS, by the Delaware Health Facilities Act (16 Del. Code Ann., §§ 9201-9222) (herein the “Act”), the Delaware Health Facilities Authority (the “Authority”), a public instrumentality of the State of Delaware (the “State”), was created for the purpose, inter alia, of issuing its revenue bonds in order to further the purpose and intent of the Act by benefiting the people of the State by, among other things, improving their health; and

WHEREAS, Beebe Medical Center, Inc. (hereinafter the “Hospital”) has filed an application with the Authority dated May 29, 2015 (the “Application”) requesting that the Authority issue its revenue bonds in one or more series (the “Series 2015A Bonds”) the proceeds of which will be applied to: (i) currently refund the Authority's outstanding Revenue Bonds (Beebe Medical Center Project) Series 2005A (the “Series 2005A Bonds”); and (ii) pay allowable costs of issuance of the Series 2015A Bonds. The proceeds of the Series 2005A Bonds, along with the proceeds of the Authority’s Variable Rate Demand Revenue Bonds (Beebe Medical Center Project) Series 2005B (the “Series 2005B Bonds” and together with the Series 2005A Bonds, the “Series 2005 Bonds”) were used to (a) finance a portion of the costs of certain capital projects at various locations of the Hospital (the “2005 Projects”); (ii) fund a portion of the interest payable on the Series 2005 Bonds during construction of the facilities constructed as part of the 2005 Projects; (iii) make a deposit into the debt service reserve fund in connection with the Series 2005A Bonds; and (iv) pay the costs of issuing the Series 2005 Bonds, including credit enhancement costs.

WHEREAS, the Hospital has executed and delivered an Expense and Indemnity Agreement as required by the Authority; and

WHEREAS, the Authority now desires to adopt this bond resolution to approve a plan of financing for the above-mentioned purposes, and to appoint a committee to approve the final terms of the Series 2015A Bonds to be issued by the Authority.

NOW, THEREFORE, BE IT RESOLVED by the Delaware Health Facilities Authority, as follows:

Section 1. The Authority hereby finds and determines:

(a) The purpose of the Act is to provide additional means for health care facilities to expand, enlarge and establish health care, hospital and other related facilities within the State; and

(b) By virtue of the Act, the Authority has been vested with all powers necessary and convenient to carry out the purposes and provisions of the Act, including the power to issue its bonds; and

(c) The Hospital is located within the State and is eligible for assistance from the Authority pursuant to the Act; and

(d) The Hospital will approve and authorize its appropriate officers to execute and deliver (i) the Loan Agreement (as defined below), (ii) a Bond Purchase Agreement (as defined below), (iii) the Official Statement (as defined below) related to the Series 2015A Bonds presented to the Authority in a draft at this meeting, (iv) a Continuing Disclosure Agreement, and (v) a Tax Compliance Certificate relating to Series 2015A Bond setting forth certain compliance requirements pursuant to the Internal Revenue Code of 1986, as amended (the "Tax Certificate"); and

(e) It is desirable and in the public interest for the Authority to issue and sell its revenue bonds for the purpose of effecting a financing substantially as described in the Official Statement; subject, however, to the approval of the Bond Committee hereinafter appointed and compliance with certain limitations set forth in clauses (i)-(iii) of Section 5(b) hereof.

Section 2. (a) In connection with the foregoing and subject to the approval of the Bond Committee hereinafter appointed and compliance with certain limitations set forth in clauses (i)-(iii) of Section 5(b) hereof, the Authority hereby determines to approve the plan of financing substantially as described in the Official Statement; and (b) the Authority hereby approves Ballard Spahr LLP as Bond Counsel.

Section 3. In connection with the foregoing and subject to the approval of the Bond Committee hereinafter appointed and compliance with certain limitations set forth in clauses (i)-(iii) of Section 5(b) hereof, the Authority hereby approves the form and substance of each of the following agreements and documents, each as presented in draft form at this meeting: (i) the Supplemental Indenture No. 6 dated as of July 1, 2015 between the Authority and The Bank of New York Mellon Trust Company, as successor trustee, which supplements the Trust Indenture dated as of April 1, 1990 between the Authority and Chase Bank USA, National Association (f.k.a. Chase Manhattan Bank USA, National Association and successor Trustee to PNC Bank, Delaware and Bank of Delaware), as trustee, as amended by Supplemental Indenture No. 1 dated as of August 1, 1994; Supplemental Indenture No. 2 dated as of February 1, 2002; Supplemental Indenture No. 3 dated as of July 1, 2004; Supplemental Indenture No. 4 dated as of September 1, 2005; and Supplemental Indenture No. 5 dated as of June 1, 2014 (as supplemented, the "Trust Indenture"); (ii) the Seventh Supplemental Loan, Mortgage and Security Agreement dated as of July 1, 2015 between the Authority and the Hospital which supplements the Loan, Mortgage and Security Agreement dated as of April 1, 1990 between the Authority and the Hospital, as amended by the First Supplemental Loan, Mortgage and Security Agreement dated as of August

1, 1994; the Second Supplemental Loan, Mortgage and Security Agreement dated as of February 1, 2002; the First Amendment to the Second Supplemental Loan, Mortgage and Security Agreement dated as of February 1, 2002; the Third Supplemental Loan, Mortgage and Security Agreement dated as of July 1, 2004; the Fourth Supplemental Loan, Mortgage and Security Agreement dated as of July 1, 2004; the Fifth Supplemental Loan, Mortgage and Security Agreement dated as of September 1, 2005, and the Sixth Supplemental Loan, Mortgage and Security Agreement dated as of June 1, 2014 (as supplemented, the “Loan Agreement”); (iii) the Preliminary Official Statement and/or the Official Statement with respect to the Series 2015A Bonds (collectively, the “Official Statement”); and (iv) the Confirmatory Assignment of Loan, Mortgage and Security Agreement dated as of July 1, 2015; and further approves a Bond Purchase Agreement for the Series 2015A Bonds between the Authority and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Underwriter”) in such form and of such substance as the Authority’s counsel shall determine and approve and recommend to the Bond Committee for approval (the “Bond Purchase Agreement”); and further approves the Tax Certificate in such form and of such substance as the Authority’s counsel shall determine and approve and recommend to the Bond Committee for approval; in all of the foregoing cases with all with such changes as may be appropriate to reflect the final terms of the Series 2015A Bonds as determined by the Bond Committee appointed in Section 5 hereof.

Section 4. The Authority hereby authorizes the distribution of the Official Statement by the Underwriter to prospective purchasers of the Series 2015A Bonds.

Section 5. (a) Pursuant to § 9211(c) of the Act, the Authority hereby appoints a Bond Committee (the “Bond Committee”) which shall have the powers and authority (which is hereby delegated to the Bond Committee) as set forth in (b) below. The Bond Committee shall consist of: Rolf F. Eriksen, Desmond A. Baker, and William G. Neaton. In the event of the inability of any member of the Bond Committee to act with respect to his obligations hereunder, the Chairman of the Authority may appoint a substitute therefor.

(b) The Bond Committee shall have the power and authority to (i) determine the terms of the Series 2015A Bonds, including, without limitation, the aggregate principal amount thereof, provided that the amount shall not exceed \$20,000,000; (ii) determine the maturity date not to exceed 50 years or other dates on which payment of the Series 2015A Bonds shall be due and the terms upon which the Series 2015A Bonds, or any portion thereof, may be redeemed, subject to the provisions of the Act; (iii) determine the Underwriter’s discount on the sales of the Series 2015A Bonds, provided that the discount shall not exceed \$8.00 per bond; (iv) determine the minimum denominations of the Series 2015A Bonds; (v) otherwise determine any of the matters set forth in § 9211 of the Act; (vi) award the Series 2015A Bonds to one or more purchasers for such price or prices and upon such other terms as the Bond Committee shall approve subject to the limitations set forth in this subsection (b); (vii) approve the execution and delivery of the Series 2015A Bonds; (viii) approve the use of and the Authority’s execution, delivery and performance of the following documents in substantially the form presented to and approved by the Authority at this meeting with such changes as the Bond Committee shall deem necessary or appropriate in connection with the issuance of the Series 2015A Bonds: (1) Trust Indenture, and (2) Loan Agreement; (ix) approve the form and substance of, and authorize the execution and/or delivery of, the following documents: (1) the Official Statement in final form (and any preliminary official statement that might be used in connection

with the marketing of the Series 2015A Bonds); (2) the Bond Purchase Agreement in final form, taking into consideration the recommendation of the Authority's counsel concerning such Bond Purchase Agreement; (3) the Tax Certificate in final form, taking into consideration the recommendation of the Authority's counsel concerning such Tax Certificate; and (4) with respect to the Authority's acknowledgement and approval, a Continuing Disclosure Agreement executed by the Hospital (the "Continuing Disclosure Agreement"), all with terms consistent with the requirements of this resolution; and (x) otherwise make such determinations and approve and authorize such documents and actions as the Bond Committee shall, with the advice of the Authority's counsel and financial advisor, deem advisable, subject however, to the express limitations set forth in (i)-(iii) above. Compliance with the limitations and requirements set forth in clauses (i)-(iii) above must be confirmed by Public Financial Management, Inc., the Authority's financial advisor, as a condition to the Bond Committee's approval of the sale of the Series 2015A Bonds.

(c) Actions taken by the Bond Committee pursuant to the authority delegated above shall be taken upon the approval of a majority of the Bond Committee at one or more public meetings called for the purpose. Such meetings may be called by any member of the Bond Committee by written or telephonic notice given to each other member of the Bond Committee.

(d) The authority delegated to the Bond Committee by this Section 5 shall terminate and expire on December 31, 2015.

Section 6. The Series 2015A Bonds and interest thereon shall be limited obligations of the Authority payable solely out of the revenues and receipts to be derived pursuant to the Loan Agreement and the Trust Indenture and shall not constitute a debt or liability of the State or any political subdivision thereof, other than the Authority, nor is the faith and credit or the taxing power of the State or any political subdivision thereof, including the Authority, pledged to the payment of the principal of or the premium, if any, or the interest on the Series 2015A Bonds or other costs incident thereto.

Section 7. Subject to the approval of the Bond Committee and confirmation by Public Financial Management, Inc. of compliance with certain limitations as provided for in Section 5 hereof, the Chairman or Vice Chairman of the Authority, and each of the other officers of the Authority are hereby authorized and directed for and in the name of and on behalf of the Authority to do all acts, sign all documents required or provided for by the Bond Purchase Agreement, the Series 2015A Bonds, the Loan Agreement, the Trust Indenture, and to execute and deliver all such additional certificates, instruments and documents and pay all such fees, charges and expenses and to do all such further acts and things as may be necessary, desirable and proper to effect the purposes of the foregoing provisions of this resolution and to cause compliance by the Authority with all of the terms, covenants and provisions of such documents binding upon the Authority.

Section 8. This resolution shall take effect immediately upon its adoption.